

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF MUSKEGON	County MUSKEGON
Fiscal Year End 12/31/06	Opinion Date 4/5/07	Date Audit Report Submitted to State 4/6/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

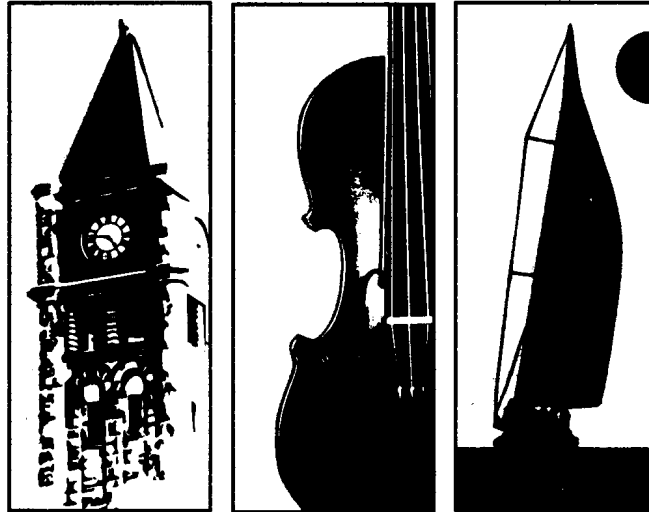
We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	NONE THIS YEAR		
Other (Describe)	<input checked="" type="checkbox"/>	SINGLE AUDIT (INCLUDED AS PART OF CAFR)		
Certified Public Accountant (Firm Name) BRICKLEY DELONG, PLC		Telephone Number 231-726-5800		
Street Address TERRACE PLAZA SUITE 500		City MUSKEGON	State MI	Zip 49443
Authorizing CPA Signature <i>Timothy D. Arter, CPA</i> for Brickley DeLong, PLC		Printed Name TIMOTHY D. ARTER		License Number 10253

City of Muskegon,
Michigan

Comprehensive Annual Financial Report

For The Year Ended December 31, 2006

MUSKEGON



West Michigan's Shoreline City

**CITY OF MUSKEGON,
MICHIGAN**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2006**

Prepared By

FINANCIAL SERVICES DIVISION

**Timothy Paul
Director of Finance**

**Elizabeth Lewis
Assistant Finance Director**

**Kenneth Grant
Income Tax Administrator**

**Kathy Coleman
Accounts Payable**

**Derrick Smith
City Treasurer**

**James Maurer
Information Systems Director**

**Matt Lee
Payroll**

City of Muskegon

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Affirmative
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Cemetery
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FAX (231)726-
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City Manager
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FAX (231)722-
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Civil Service
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FAX (231)724-
4405

Clerk
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FAX (231)724-
4178

Comm. &
Neigh. Services
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FAX (231)726-
2501

Finance
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FAX (231)724-
6768

Fire Department
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FAX (231)724-
6985

Income Tax
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6768

Inspection
Services
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FAX (231)728-
4371

Leisure Services
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FAX (231)724-
1196

Mayor's Office
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1214

Planning/Zoning
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FAX (231)724-
6790

Police
Department
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5140

Public Works
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Treasurer
(231)724-6720
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6768

MUSKEGON



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April 5, 2007

Honorable Mayor and Members of the
City Commission
City of Muskegon
Muskegon, Michigan 49443

Ladies and Gentlemen:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Muskegon, Michigan, for the year ended December 31, 2006. This report includes the City's audited financial statements in accordance with the requirements of state law. The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This annual report is formatted to comply with the financial reporting model developed by the Government Accounting Standards Board (GASB) Statement 34.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with the financial statements. The City of Muskegon's MD&A can be found immediately following the independent auditor's report.

The Comprehensive Annual Financial Report is prepared by the City's Finance Department and responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to set forth fairly the financial position and results of operation of the City as measured by the financial activity of its various funds and component units; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's finances have been included. Brickley DeLong, P.L.C., Certified Public Accountants, performed the independent audit of all accounts of the City as required by state law and their report and unqualified opinion is presented as the first component of the financial section of this report.

MUSKEGON



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THE CITY AND THE REGION

The City of Muskegon is located in Western Michigan on the shores of Lake Michigan. The City covers eighteen square miles and, with a population of approximately 40,000, is the largest city on the eastern shore of Lake Michigan. The City is located in Muskegon County and is part of the Muskegon-Norton Shores MSA. Although Michigan's economy has lagged the national economy due to loss of manufacturing, Muskegon's local economy has performed better than most Michigan communities:

- *Inc. Magazine* named Muskegon as Michigan's top "boomtown" for 2006
- The California-based Milken Institute ranked Muskegon ahead of all other Michigan communities in its ranking of the 200 largest cities in the country;

Muskegon is also home to many outstanding recreation and cultural facilities and activities:

- Michigan Adventure Amusement Park, located north of the city, is the largest amusement park in Michigan. Muskegon County is currently helping to finance the extension of City water to the amusement park which is expected to spur further development of the area.
- Muskegon is home to both a professional hockey team (UHL Muskegon Fury) and a professional arena football team (Muskegon Thunder).
- Muskegon's Pere Marquette beach has been nationally recognized as one of the best beaches in the nation by USA Today and is the only beach in Michigan to receive and maintain the Blue Wave Certification by the Clean Beaches Council. The Blue Wave certification identifies the nation's cleanest, safest and most environmentally well-managed beaches.
- Muskegon is the cultural hub for West Michigan with many museums and live performances. The Muskegon Museum of Art has the third best art collection in the Midwest, and the Muskegon County Museum provides insight into the area's history. The former residences of Muskegon's lumber barons, Charles H. Hackley and Thomas Hume, proudly display the glory of the Victorian ages. The Fire Barn Museum takes visitors back to a 1890s Muskegon Fire Station. The West Shore Symphony and Muskegon Civic Theater bring the stage of The Frauenthal Center for the Performing Arts to life throughout the year.
- Muskegon is home to three historic museum ships that attract thousands of visitors each year:
 - *USS Silversides*, a rare surviving World War II submarine maintained in pristine condition;
 - *LST-393*, a landing craft used in the D-day invasion and one of only two such vessels remaining in existence; and the
 - *Milwaukee Clipper*, a Great Lakes passenger ship built before the *Titanic* that for many years served as a cross-lake ferry between Muskegon and Milwaukee.

MUSKEGON



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The City operates under a Commission-Manager form of government and provides the full range of traditional municipal services. These include police and fire protection, parks and recreation activities, public works operations, water and sewer services, parking facilities, solid waste collection, community development and general administrative support services. The City also provides treated water to several surrounding communities on a wholesale basis.

COMPONENT UNITS

The City has three discretely presented component unit types. These entities are discretely presented in the financial statements as the governing boards of the component units are substantially the same as the City's governing board:

- The Downtown Development Authority (DDA) which exists primarily for the purpose of financing redevelopment activities in the City's downtown area. The DDA has issued bonds that are repaid through tax increment revenues generated by development within the Authority's boundaries.
- The Tax Increment Finance Authority (TIFA), which exists primarily for the purpose of financing redevelopment activities in a sub-section of the City's downtown area. The TIFA generates tax increment revenues through development within the Authority's boundaries.
- The Local Development Finance Authority issues bonds for development activities in the City's industrial park and high-tech park areas. Bonds are repaid through tax increment revenues generated by development within the Authority's boundaries. The City has created four separate local development finance authority districts under the aegis of the Local Development Finance Authority (LDFA). Only one of these four districts has outstanding debt at this time.

LOCAL ECONOMIC CONDITION AND OUTLOOK

Muskegon is fortunate to have a diverse local economy. The manufacturing sector is strong in the areas of aerospace, chemicals, plastics, metals and castings, office furniture and automotive parts. The City of Muskegon also benefits from being home to large government, corrections, healthcare, and educational employers. Local income tax withholdings remitted by these employers help provide stability to City finances in times of economic weakness.

As noted, the downturn in Michigan's manufacturing economy has impacted Muskegon, but not to the extent it has other Michigan communities. According to the W.E. Upjohn Institute, the local economy in Muskegon is expected to see 0.6% and 1.2% job growth for 2007 and 2008, respectively.

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MAJOR INITIATIVES AND ACCOMPLISHMENTS

Among the City's major initiatives and accomplishments in 2006 were the following:

- The high-speed cross-lake ferry service linking Muskegon with Milwaukee, Wisconsin completed a successful third year of operations. More than 110,000 passengers rode the ferry in 2006.
- Development began on a nine-acre former Brownfield site in Muskegon's downtown. The City is using part of the site for a new 20,000 square foot Central Fire Station to replace the existing 80-year old facility. The rest of the site was sold to a private developer who is in the process of constructing a new car and motor cycle dealerships and will further develop the site with restaurants and retail development.
- Work was completed on streets and other infrastructure improvements for the former Downtown Mall property. This 23-acre site in the center of the City is under development as a mixed-use residential and commercial site. The Downtown Muskegon Development Corporation is spearheading this effort and the City and County have assisted through the granting of a tax-free "renaissance zone" status and through financial participation, primarily in the form of state and federal grants.
- A \$10.6 million cleanup of the contaminated Ruddiman Creek and Lagoon was completed. The cleanup is being funded by federal and state grants and involved the dredging and removal of 80,000 cubic yards of contaminated sediment.
- Development of the Edison Landing Smartzone on the City's downtown waterfront continued with the opening of a 25,000 square foot law office building and construction of four luxury condominiums on the site. Work on additional office buildings and residential space is scheduled for 2007.

OTHER INFORMATION

INTERNAL ACCOUNTING CONTROLS

The City's management is responsible for establishing and maintaining an internal control structure that is designed to ensure adequate protection of the City's assets from loss, theft, or misuse, and adequate accounting data to allow for preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the costs of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurances of proper recording of financial transactions.

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BUDGETARY CONTROL

Budgetary control is maintained through an annual budget resolution passed by the City Commission. Budgetary control at the functional level is maintained by review of estimated expenditures prior to making purchases. Encumbrances are not recorded in the City's funds. The City does, however, utilize an informal monitoring system to facilitate budgetary control over proposed purchases. Essentially, this system entails the use of on-line budgetary information that details year-to-date "actual versus budgeted" expenditure comparisons by budget category. This information is accessible to appropriate personnel to enable them to ascertain the budget status of an expenditure category prior to authorizing additional purchases.

DEBT ADMINISTRATION

At December 31, 2006, the total of City bonds and contractual debt outstanding (including discretely presented component unit debt) was \$46,409,589 as compared to \$40,789,817 at December 31, 2005. During the year, the City issued \$5.4 million in capital improvement bonds to finance the new Central Fire Station and certain recreation projects. In addition, the following new obligations were incurred:

- \$243,924 Urban Land Assembly (ULA) loan proceeds were drawn from the State of Michigan. This represents the balance of a \$700,000 ULA loan from the State, with \$456,076 having been drawn down during 2005. The loan carries zero percent interest and was used to finance downtown infrastructure improvements.
- \$3,078,010 was the City's share of county-issued debt to fund improvements to the regional wastewater treatment system.

During the year, Standard & Poor's affirmed the City's general obligation debt rating of **A**.

CASH MANAGEMENT AND INVESTMENTS

Temporarily idle cash from the City's various funds is invested through management of a common pooled cash and investments system. Maturity of investments are timed to meet the City's cash needs. Investment instruments generally consisted of U.S. Treasury Bills and Notes, government agency securities, high quality commercial paper and liquid money-market funds. Daily liquidity needs are managed by investments in liquid short-term funds of all cash not needed in the common checking account to cover checks and other debits presented to the bank for payment that day. The City has contracted with MBIA Municipal Investors Service Corporation to provide full-time, non-discretionary management of the City's operating funds portfolio.

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PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

For more than sixty years, the City of Muskegon has sponsored two locally-administered defined benefit pension programs: the *Police and Fire Retirement System* for uniformed police and fire personnel and the *General Employees' Retirement System* for all other full-time employees. In late 2005, the City began transitioning administrative responsibility for defined benefit pensions to the statewide Municipal Employees Retirement System (MERS) of Michigan. This was done to achieve the economies of scale and investment diversification that the \$6 billion MERS program offers. Transitioning to MERS has involved extensive negotiations with five labor unions and gaining the cooperation of affected employees and retirees. We are pleased to report that the transition to MERS will be completed as of April 1, 2007.

A parallel effort has been to stabilize the City's retirement benefit costs by replacing the defined benefit pension program with a defined contribution model. Again, through extensive negotiations, this goal has been achieved and, all new employees hired by the City are now covered by the defined contribution retirement program.

The City also provides post-retirement health benefits for retirees and their dependents. Since 1987, the City has had an actuarial valuation of its post employment healthcare obligation performed each year and has followed a program of prefunding the obligation in the same manner as its pension obligations. Starting in 2005, the City has implemented the requirements of GASB statements 43 and 45 – "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."

RISK MANAGEMENT

During 2006, the City continued its participation in the Michigan Municipal Risk Management Authority (MMRMA), an intergovernmental cooperative self-insurance program. The MMRMA offers secure liability and property insurance coverage with premium stability and broad coverage at a competitive price. The City is insured up to \$15 million with a \$100,000 deductible per occurrence for general, auto, public official and law enforcement liability. Since the City began participating in the MMRMA program in March 1986, total incurred losses and expenses (exclusive of reinsurance recoveries) have been \$7,940,113.

SINGLE AUDIT

The City is required to have an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of State, Local Governments and Non-Profit Organizations". Information related to the single audit, including the schedule of federal awards, findings and questioned costs, and auditors' reports on internal control over financial reporting and compliance with certain laws, regulations and grants are included herein. The financial activities related to the single audit requirements, such as the Community Development Block Grant Program, are also included in this financial report.

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AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Muskegon for its Comprehensive Annual Financial Report for the year ended December 31, 2005. This marked the twenty-first consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report could not be accomplished without the dedicated and efficient services of the staff of the Financial Services Division and the Muskegon County Print Shop. We would also like to thank the members of the City Commission for their continued interest and support in conducting the financial affairs of the City in a responsible and progressive manner and for their tireless efforts in working for the betterment of the Muskegon community.

Respectfully submitted,

A handwritten signature in cursive script, reading "Bryon L. Mazade".

Bryon L. Mazade
City Manager

A handwritten signature in cursive script, reading "Timothy J. Paul".

Timothy J. Paul
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Muskegon
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



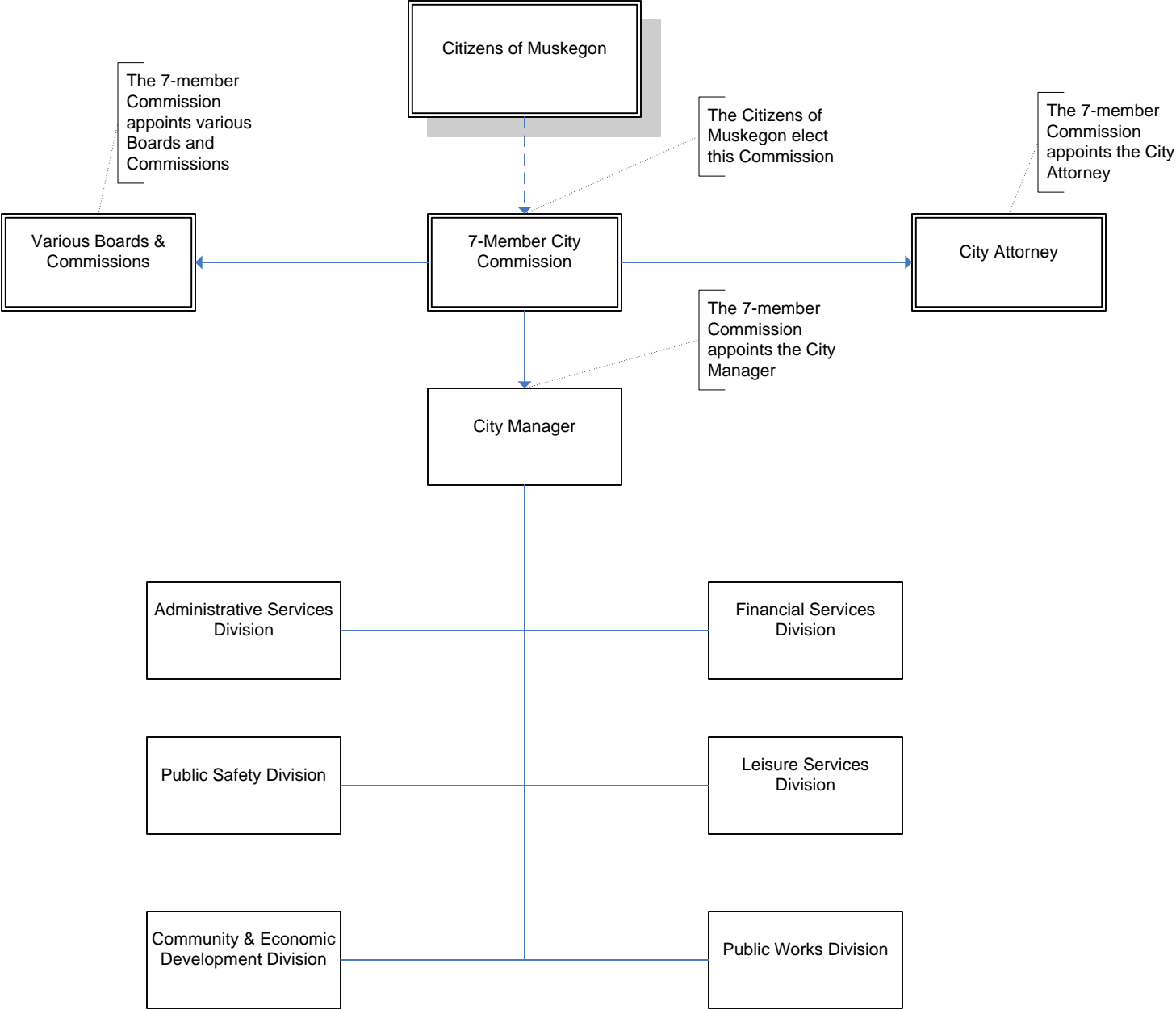
A handwritten signature in black ink, appearing to read "Roma Platen".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

City Of Muskegon Organizational Chart



**CITY OF MUSKEGON, MICHIGAN
LIST OF PRINCIPAL OFFICIALS**

December 31, 2006

ELECTED OFFICIALS

Mayor-Commissioner. Steve Warmington
At Large

Vice Mayor-Commissioner. Stephen J. Gawron
At Large

Commissioner. Chris Carter
Ward 1

Commissioner. Clara Shepherd
Ward 2

Commissioner. Lawrence O. Spataro
Ward 3

Commissioner. Kevin Davis
Ward 4

Commissioner. Sue Wierengo
At Large

APPOINTED OFFICIALS

City Manager. Bryon L. Mazade

City Attorney. John C. Schrier

Director of Finance. Timothy J. Paul

FINANCIAL SECTION

BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

April 5, 2007

City Commission
City of Muskegon
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Muskegon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon, as of December 31, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 19 - 30 and 78 - 85 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

City Commission

April 5, 2007

Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Muskegon's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Muskegon. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Brickley DeLong, PLLC

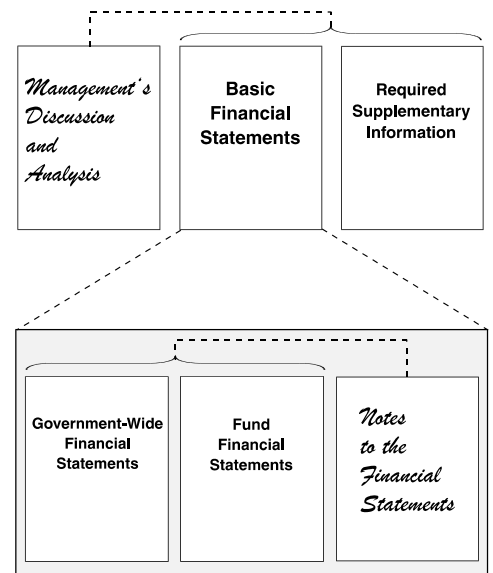
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Muskegon's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2006. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Muskegon exceeded its liabilities by \$131,145,730 as of December 31, 2006. Of the total net assets, \$15,689,033 (12.0%) was unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total combined net assets increased \$6,565,310 (5.3%) over the prior year. This increase is primarily the result of tight control of expenses and increased investment in capital assets funded largely by state and federal grants.
- The City's governmental funds reported combined ending fund balance of \$13,232,111, an increase of \$3,624,462 in comparison to the prior year. Most of this increase results from proceeds of general obligation long-term debt issued to fund construction of a new Central Fire Station.
- During the year, the City's total debt increased by \$5,736,881 (17%). Most of this increase is attributable to the issuance of \$5.4 million in capital improvement bonds for previously mentioned fire station, marina improvements and completion of a lakefront bike/walking trail
- The City's general fund reported a total fund balance of \$2,690,039, an increase of \$170,434 over the prior year. The City also maintained a budget stabilization (or "rainy day") fund that reported a fund balance of \$1.5 million at December 31, 2006, an increase of \$150,000 from 2005.

Figure A-1, Required Components of the City's Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.

Summary ←→ Detail

- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting individual City operations in greater detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains available for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about activities the City operates *like private businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include detailed notes that explain some of the information in the financial statements and provide additional data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the City's financial

Figure A-2. Major Features of the City's Government-Wide and Fund Financial Statements

Type of Statements	Fund Statements			
	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses.	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	• Statement of net assets	• Balance sheet	• Statement of net assets	• Statement of fiduciary net assets
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances	• Statement of revenues, expenses and changes in fund net assets • Statement of cash flows	• Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement

of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's overall financial health or *position*. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. However, to assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements include not only the City of Muskegon itself (known as the *primary government*), but also legally separate *component units* for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements of the City include the *governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, sanitation, economic development, parks and recreation, and interest on long-term debt. Income taxes, federal grants, property taxes and revenues from the State of Michigan finance most of these activities.

Also included in the government-wide statements are the City's business-type activities: water, sewer and marina operations.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's major *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law or other legal requirements.
- The City Commission establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the user determine whether there are more or fewer financial resources that can be spent in the near

future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page of the governmental funds statements that explain the relationship (or differences) between them.

- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. The City uses three proprietary funds: water, sewer, and marina. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- We use *internal service funds* to report activities that provide supplies and services for the City's other programs and activities.
- *Fiduciary funds*—The City is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.
- *Component units* – Finally, the City of Muskegon's Comprehensive Annual Financial report includes five component units: the Downtown Development Authority (DDA), the Tax Increment Finance Authority (TIFA) and, three Local Development Finance Authorities (LDFAs). Component units are separate legal entities for which the City of Muskegon has some level of financial accountability. The component units of the City exist primarily for the issuance and repayment of debt to finance projects in specific areas of the City. Accordingly, they are discussed below under the *Capital Assets and Debt Administration* heading.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The Statement of Net Assets provides an overview of the City's assets, liabilities and net assets. Over time this can provide a good indicator of the City's fiscal health. The total net assets of the City were \$131,145,730 as of December 31, 2006. This is an increase of \$6,563,310 over reported net assets for the prior year. A summary of the City's net assets follows:

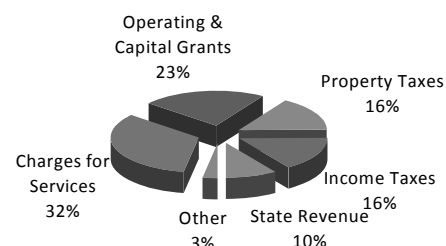
City's Net Assets (In thousands of dollars)							
	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006-2005</u>
Current and other assets	\$27,617	\$22,734	\$13,342	\$14,843	\$40,959	\$37,577	9.0%
Capital assets	79,762	75,845	62,036	56,744	141,798	132,589	6.9%
Total Assets	107,379	98,579	75,378	71,587	182,757	170,166	7.4%
Long-term liabilities	10,043	5,738	25,167	24,001	35,210	29,739	18.4%
Other liabilities	13,365	12,490	3,036	3,357	16,401	15,847	3.5%
Total Liabilities	23,408	18,228	28,203	27,358	51,611	45,586	13.2%
Net Assets							
Invested in capital assets, net of related debt	69,814	67,120	39,442	36,743	109,256	103,863	5.2%
Restricted	5,378	5,420	822	822	6,200	6,242	-0.7%
Unrestricted	8,779	7,811	6,911	6,664	15,690	14,475	8.4%
Total Net Assets	\$83,971	\$80,351	\$47,175	\$44,229	\$131,146	\$124,580	5.3%

The bulk of the City's net assets (83%) reflect investment in capital infrastructure assets less the outstanding balance of debt issued to acquire those assets. These physical assets are used to provide public services to citizens and are not available for future spending. Five percent (\$6,201,228) of the City's net assets are subject to legal restriction on the resources may be used. The remaining net assets (\$15,689,033) are unrestricted and may be used to meet the City's ongoing obligations.

Changes in net assets. The City's total revenues were \$49,123,893. About one-third of the City's revenue stream came from charges to users of specific services such as water or sewer (See Figure A-3). Another twenty-three percent came from various grants from the state and federal governments and thirty-two percent was from local property and income taxes. The remainder was comprised of state revenues and various other sources such as interest income.

The total cost of all City programs and services during 2006 was \$42,558,583, an increase of \$1,295,553 from 2005. Seventy-seven percent of these costs were for governmental activities such as police and fire protection, streets, parks, and general administration. The remaining twenty-three percent represents business-type activities operated by the City, specifically, water, sewer and marina operations.

Figure A-3
City of Muskegon
Sources of Revenue for Fiscal Year 2006



The difference between the City's total revenues and expenses (\$6,565,310) represents the increase in total net assets for 2006. The following table (*Changes in City's Net Assets*) further breaks down the change in total net assets into year-to-year changes in individual revenue and expense categories:

Changes in City's Net Assets (In thousands of dollars)							
	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2006-2005
Program revenues							
Charges for services	\$4,967	\$5,169	\$11,413	\$11,310	\$16,380	\$16,479	-0.6%
Operating grants and contributions	5,093	6,017	-	-	5,093	6,017	-15.4%
Capital grants and contributions	5,360	5,894	711	100	6,071	5,994	1.3%
General revenues							
Property taxes	7,847	7,670	-	-	7,847	7,670	2.3%
Income taxes	7,674	7,238	-	-	7,674	7,238	6.0%
State shared revenues	4,674	4,593	-	-	4,674	4,593	1.8%
All other	1,263	1,114	122	138	1,385	1,252	10.6%
Total revenues	36,878	37,695	12,246	11,548	49,124	49,243	-0.2%
Governmental activities expenses							
Public representation	904	885	-	-	904	885	2.1%
Administrative services	733	804	-	-	733	804	-8.8%
Financial services	2,062	1,872	-	-	2,062	1,872	10.1%
Public safety	13,059	12,482	-	-	13,059	12,482	4.6%
Public works	3,089	2,854	-	-	3,089	2,854	8.2%
Highways, streets and bridges	5,672	5,910	-	-	5,672	5,910	-4.0%
Community and economic development	3,383	3,693	-	-	3,383	3,693	-8.4%
Culture and recreation	2,465	2,505	-	-	2,465	2,505	-1.6%
General administration	1,144	1,608	-	-	1,144	1,608	-28.9%
Interest on long-term debt	207	171	-	-	207	171	21.1%
Business-type activities expenses							
Water	-	-	4,500	4,181	4,500	4,181	7.6%
Sewer	-	-	5,007	3,953	5,007	3,953	26.7%
Marina	-	-	333	344	333	344	-3.2%
Total expenses	32,718	32,784	9,840	8,478	42,558	41,262	3.1%
Change in net assets before transfers	4,160	4,911	2,406	3,070	6,566	7,981	-17.7%
Transfers	(540)	(80)	540	80	-	-	-
Change in net assets	3,620	4,831	2,946	3,150	6,566	7,981	-17.7%
Net assets at beginning of year	80,351	53,281	44,229	41,079	124,580	94,360	32.0%
Restatement at January 1	-	22,239	-	-	-	22,239	-
Net assets at end of year	\$83,971	\$80,351	\$47,175	\$44,229	\$131,147	\$124,580	5.3%

Net assets for governmental activities increased \$3,619,383 primarily due to strong local income and property tax collections and continued tight cost controls. Business-type activities saw an increase in net assets of \$2,945,927, down from last year's increase of \$3,149,500.

Governmental Activities

The following table (*Net Cost of Selected City Functions*) presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid specifically related to the function). The net cost reflects the portion of costs funded by local tax dollars and other general resources.

- The operational cost of all governmental activities during 2006 was \$32,718,585.
- The net cost that City taxpayers paid for these activities through local taxes was \$15,520,403, or 47% of the total.
- The remaining cost was paid by user charges to those who directly benefit from the programs or by state and federal grants and contributions

Net Cost of Selected City Functions
(in thousands of dollars)

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2006	2005		2006	2005	
Governmental activities						
Public safety	\$13,059	\$12,482	4.6%	\$11,678	\$11,191	4.4%
Community and economic development	3,383	3,693	-8.4%	675	117	476.9%
Culture and recreation	2,465	2,505	-1.6%	425	1,262	-66.3%
Highways, streets and bridges	5,672	5,910	-4.0%	(1,508)	(2,919)	-48.3%
Public works	3,090	2,853	8.3%	2,454	2,185	12.3%
All other	5,049	5,341	-5.5%	3,575	3,867	-7.6%
Total governmental activities	\$32,718	\$32,784	-0.2%	\$17,299	\$15,703	10.2%

Business-Type Activities

The financial goal of the City's business-type activities (i.e. water, sewer and marina operations) is to operate on a more or less "break-even" basis without making significant profit or needing general tax subsidies. For 2006 this goal was achieved with the City's total business-type activities realizing an overall increase in net assets of \$2,945,927. These funds were used to pay debt principal, fund required reserves and further invest in capital assets.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The fund financial statements provide detailed information about the major City funds, not the City as a whole. The City's major funds for 2006 were the general fund, the major and local street funds, and the public improvement fund.

General Fund Budgetary Highlights

The general fund receives the most public attention since it is where local tax revenues are accounted for and where the most visible municipal services such as police, fire and parks are funded. The City reforecasts its general fund budget on a quarterly basis to take into account changing economic conditions and policy priorities. The following table shows the general fund year-end fund balance for the last five years:

Year	Year-End Fund Balance	Year-to-Year % Change	Prior Year's Expenditures and Other Uses	Fund Balance as a % of Prior Year Expenditures (Policy Target = 10%)
2006	\$2,690,039	+6.8%	\$ 23,658,227	11.37%
2005	2,519,605	+3.0%	23,388,020	10.77%
2004	2,445,191	+0.5%	23,705,334	10.31%
2003	2,431,418	-13.4%	23,971,536	10.14%
2002	2,807,996		23,235,978	12.08%

Actual 2006 general fund expenditures were \$169,808 less than the original budget amount. Most of this variance occurred in the areas of salaries, benefits and other operating costs as the City continued to manage its way through a difficult economy with continued tight control of position vacancies and overtime. Significant budget amendments made during the year included:

- City Attorney – amended to account for costs incurred by the City’s involvement in an environmental matter involving a mining company’s plans to discharge water into Lake Michigan.
- Arena Administration – amended to reflect terms of a new operating arrangement for the LC Walker Arena and the closeout of the former LC Walker Arena special revenue fund.
- Transfers out to other funds – amended to reflect additional transfers to the street funds and the budget stabilization fund made possible by higher than expected income tax revenues at year-end.

General fund revenues for 2006 were \$1,087,526 more than originally budgeted. This positive variance is attributable to higher than anticipated local income tax collections and investment earnings.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the City and its component units had invested \$141,217,171 in a wide range of capital assets, including land, equipment, buildings, water and sewer lines, and vehicles. Note D of the notes to the basic financial statements provides detailed information on the City’s capital asset investment.

The City’s largest capital asset project during 2006 was construction of a new \$4.0 million Central Fire Station. Other major projects included improvements to the municipal marina, lakeshore bike trail and infrastructure improvements in the downtown.

Long-Term Debt

At year-end 2006, the City had \$38,986,624 in bonds and other long-term obligations outstanding. This represents an increase of 17% over the prior year. During 2006, the City entered into the following new debt obligations:

- \$5,400,000 Capital improvement bonds issued for the purpose of constructing a new Central Fire Station and making improvements to the City’s marina and recreation trail systems.
- \$243,924 Urban Land Assembly (ULA) Loan through the State of Michigan. This loan carries zero-percent

Bond Ratings

The City’s limited full faith and credit bonds (i.e. bonds guaranteed by the City’s general taxing powers) presently carry a Standard & Poors rating of “A”.

interest and will be used for downtown redevelopment.

- \$3,078,010 of contractual wastewater debt issued by Muskegon County.

Additional information concerning the City's long-term debt is presented in Note I to the basic financial statements.

City's Long Term Debt – Bonds and Other Obligations (In thousands of dollars)							
	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2006-2005
	2006	2005	2006	2005	2006	2005	
Due within one year	\$1,468	\$1,423	\$2,308	\$2,088	\$3,776	\$3,511	7.5%
Due in more than one year	<u>10,043</u>	<u>5,738</u>	<u>25,167</u>	<u>24,001</u>	<u>35,210</u>	<u>29,739</u>	18.4%
Total bonds & other obligations	\$11,511	\$7,161	\$27,475	\$26,089	\$38,986	\$33,250	17.3%

In addition to direct City debt, component units such as the Downtown Development Authority (DDA) and Local Development Finance Authority (LDFA) had outstanding debt totaling \$8,823,140 at year-end as shown in the table below. Debt issued by these component units typically is secured by the limited full faith and credit of the City and so is an important consideration in assessing the City's overall fiscal health. Additional information concerning component units' long-term debt is presented in Note I to the basic financial statements and is summarized as follows:

Component Unit Long Term Debt – Bonds and Other Obligations (In thousands of dollars)							
	Downtown Finance Authority		Local Development Finance Authority		Total		Total Percentage Change 2006-2005
	2006	2005	2006	2005	2006	2005	
Due within one year	\$200	\$200	\$80	\$ -	\$ 280	\$ 200	40.0%
Due in more than one year	<u>3,905</u>	<u>4,105</u>	<u>4,638</u>	<u>4,717</u>	<u>8,543</u>	<u>8,822</u>	-3.2%
Total bonds & other obligations	\$4,105	\$4,305	\$4,718	\$4,717	\$8,823	\$9,022	-2.2%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's fiscal year 2007 capital budget anticipates spending \$10,347,900 for capital projects, principally street improvements, water and sewer system improvements, and completion of the new central fire station. These improvements will be funded through grants, proceeds from debt already issued, and revenues generated by operations. No new City-issued debt is anticipated in 2007; however, the City's share of County issued wastewater debt will likely increase as the County continues to fund major system renovations.

From an operations standpoint, the City's 2007 budget plan is to maintain current service levels with no new expenditure initiatives.

To fund its operations, the City depends on five major sources of revenue: local income taxes, local property taxes, state-shared revenues, state street funds, and water and sewer utility fees. Together, these five income sources account for about three-quarters of the City's total revenues. Meaningful discussion of the City's financial outlook needs to center on these major income sources.

Local Income Tax

The City income tax was approved by voters in 1993 and now is the primary source of funding for police, fire, parks and other general operations. The tax rate is 1% on City residents and ½ of 1% on non-residents who work in the City. The income tax provides key advantages for urban core cities such as Muskegon. First, it allows the City to regionalize its tax structure by taxing non-residents who work here and use City services and by allowing the City to benefit from development occurring outside City limits. A second major advantage is that it generates revenue from employees working at hospitals, churches, government agencies, colleges and other institutions traditionally exempt from paying property taxes. This is particularly important for Muskegon since six of the ten largest income tax sources are such institutions. Income tax revenues increased from \$7,083,023 in 2005 to \$7,425,173 for 2006 (+4.8%). For 2007, the City is conservatively estimating income tax revenues at \$6,980,000. The following table shows the resident and non-resident composition of the income tax base:

Category	Number of Payers	2006 Amount Paid	Percent of Total	Average Amount Paid 2006	Average Amount Paid 2005
City Resident	7,408	\$ 2,895,547	39%	\$ 391	\$ 308
Non-Resident	14,235	3,531,934	48%	248	280
Corporate	1,850	997,692	13%	539	375
Total	23,493	\$7,425,173	100%	\$ 316	\$297

Local Property Tax

The City's 2006 property tax millage consisted of 11 mills: 8.5 mills for general operations and 2.5 mills levied for sanitation. City charter authorizes a general operating millage up to 10 mills and state law permits a maximum sanitation millage of 3 mills. Millage rates are applied to the taxable value of property in the City to arrive at the City's property tax levy. As shown below, the City's property values have grown modestly over the last few years. For 2007, the City is projecting \$7,361,472 in property taxes, a 3% increase over the \$7,142,298 collected in 2006.

Year	Real	Personal	Total	Percent Change
2006	\$706,285,650	\$149,374,300	\$855,659,950	+2.9%
2005	673,785,278	158,140,600	831,925,878	+0.3%
2004	661,233,389	168,106,228	829,339,617	-1.2%
2003	661,692,712	177,348,400	839,041,112	+1.6%
2002	638,624,250	187,393,600	826,017,850	+1.6%
2001	601,420,300	211,503,600	812,923,900	-

State Shared Revenues

State shared sales tax revenues represent about twenty-percent of total general fund revenue. The City's state shared revenue allocation is made up of two approximately equal parts. The constitutional component is a fixed percentage of total state sales tax collections that is allocated to cities on a per capita basis and that cannot be reduced by the legislature. The statutory component is determined by a complex formula and is subject to adjustment through the State's budget process. Both constitutional and statutory components depend, of course, on overall state sales tax collections. Over the last several years, state shared revenues have fallen sharply due to the faltering economy and to executive order budget cuts in the statutory share. The City's recent state shared revenue history is summarized below:

Year	State Shared Revenues	Percent Change
2006	\$4,556,801	-0.1%
2005	4,592,852	-1.1%
2005	4,645,348	-5.9%
2004	4,938,861	-7.8%
2002	5,353,987	-6.9%
2001	5,748,523	-

Continued erosion of the state shared revenue component constitutes the single biggest threat to the stability of City finances at this time. Due to the local income tax, Muskegon is somewhat less dependent on this revenue source than most Michigan cities.

For 2007, the City projects \$4,628,616 based on current information available from the state. This is little changed from the \$4,556,801 received during 2006.

Street Funds

The State also returns to the City a share of gasoline tax revenues to help fund maintenance and construction of major and local streets in the City. These revenues have not suffered to the extent that general state sales tax revenues have:

Year	Street Revenues from State	Percent Change
2006	\$3,297,183	-0.7%
2005	3,319,131	-4.1%
2004	3,459,503	+9.2%
2003	3,166,406	-1.7%
2002	3,220,625	+1.9%
2001	3,159,325	-

For 2007, the City is projecting a modest increase in street funds from the State of Michigan.

Water and Sewer Fees

From a government-wide entity perspective, combined water and sewer fees represent the City's largest income source totaling \$10,947,364 in 2006. Charges to customers are based on the amount of metered services used times rates periodically set by the City Commission. For 2006, sewer rates were increased to help offset the loss of flow related to the closing of part of a major industrial sewer user. A further sewer rate increase will be needed in 2007 to offset higher wastewater treatment costs charged by Muskegon County.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report, need additional financial information, or wish to obtain separate financial statements for the City's component units, contact the City's Finance Department at (231) 724-6713 or by e-mail (finance@shorelinecity.com).

FINANCIAL STATEMENTS

City of Muskegon
STATEMENT OF NET ASSETS (DEFICITS)
December 31, 2006

ASSETS

	Governmental activities	Business-type activities	Total	Component units
CURRENT ASSETS				
Cash and investments	\$ 15,708,951	\$ 3,554,580	\$ 19,263,531	\$ 137,288
Receivables	9,381,462	3,362,334	12,743,796	482,050
Due from other governmental units	3,350,974	98,139	3,449,113	-
Internal balances	(1,358,759)	1,358,759	-	-
Due from component units	103,996	-	103,996	-
Inventories	17,178	139,077	156,255	-
Prepaid items	413,428	30,125	443,553	-
Total current assets	27,617,230	8,543,014	36,160,244	619,338
NONCURRENT ASSETS				
Restricted assets	-	822,559	822,559	-
Capital assets, net				
Nondepreciable	20,841,809	3,200,369	24,042,178	400,000
Depreciable	55,468,443	58,040,624	113,509,067	3,265,926
Access rights, net	-	3,995,465	3,995,465	-
Bond issuance costs, net	160,573	101,025	261,598	117,276
Special assessments receivable	3,291,485	-	3,291,485	-
Contracts receivable	-	675,002	675,002	-
Total noncurrent assets	79,762,310	66,835,044	146,597,354	3,783,202
Total assets	107,379,540	75,378,058	182,757,598	4,402,540
LIABILITIES AND NET ASSETS (DEFICITS)				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	1,904,634	357,863	2,262,497	46,000
Due to other governmental units	391,033	370,328	761,361	-
Due to primary government	-	-	-	103,996
Deferred revenue	9,601,386	-	9,601,386	482,050
Bonds and other obligations, due within one year	1,468,000	2,308,000	3,776,000	280,000
Total current liabilities	13,365,053	3,036,191	16,401,244	912,046
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	10,043,475	25,167,149	35,210,624	8,543,140
Total liabilities	23,408,528	28,203,340	51,611,868	9,455,186
NET ASSETS (DEFICITS)				
Invested in capital assets, net of related debt	69,813,557	39,441,912	109,255,469	(934,938)
Restricted for:				
Streets and highways	4,076,985	-	4,076,985	-
Debt service	-	822,559	822,559	-
Perpetual care				
Expendable	77,300	-	77,300	-
Non-expendable	1,224,384	-	1,224,384	-
Unrestricted	8,778,786	6,910,247	15,689,033	(4,117,708)
Total net assets (deficits)	\$ 83,971,012	\$ 47,174,718	\$ 131,145,730	\$ (5,052,646)

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
For the year ended December 31, 2006

	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Primary Government Business-type activities
<i>Functions/Programs</i>					Total	Component units
Primary government						
Governmental activities						
Public representation services	\$ 904,109	\$ 202,939	\$ -	\$ -	\$ (701,170)	\$ -
Administrative services	732,715	306,964	11,675	-	(414,076)	-
Financial services	2,061,836	728,332	-	-	(1,333,504)	-
Public safety	13,059,358	1,134,686	191,183	55,480	(11,678,009)	-
Public works	3,089,522	588,566	-	46,735	(2,454,221)	-
Highways, streets and bridges	5,672,590	263,423	3,278,950	3,638,626	1,508,409	-
Community and economic development	3,383,157	762,220	1,549,555	396,355	(675,027)	-
Culture and recreation	2,464,567	809,228	7,992	1,222,818	(424,529)	-
General administration	1,143,963	170,240	54,000	-	(919,723)	-
Interest on long-term debt	206,768	-	-	-	(206,768)	-
Total governmental activities	32,718,585	4,966,598	5,093,355	5,360,014	(17,298,618)	-
Business-type activities						
Sewer	5,006,594	4,803,702	-	107,356	-	(95,536)
Water	4,500,578	6,342,110	-	69,065	-	1,910,597
Marina and Launch Ramp	332,826	267,412	-	534,220	-	468,806
Total business-type activities	9,839,998	11,413,224	-	710,641	-	2,283,867
Total primary government	\$ 42,558,583	\$ 16,379,822	\$ 5,093,355	\$ 6,070,655	(17,298,618)	-
Component units						
Local Development Finance Authority I	\$ -	\$ -	\$ -	\$ -	-	-
Local Development Finance Authority II	-	-	-	-	-	-
Local Development Finance Authority III	384,897	-	-	-	-	(384,897)
Downtown Development Authority	806,970	-	-	-	-	(806,970)
Tax Increment Finance Authority	54,000	-	-	-	-	(54,000)
Total component units	\$ 1,245,867	\$ -	\$ -	\$ -	-	(1,245,867)
General revenues						
Property taxes					7,846,707	427,049
Income taxes					7,673,696	-
Cable franchises					285,124	-
Grants and contributions not restricted to specific programs					4,674,157	499,537
Unrestricted investment earnings					954,360	15,416
Miscellaneous					64,645	-
Gain on sale of capital asset					81,372	-
Transfers					-	-
Total general revenues and transfers					21,580,061	942,002
Change in net assets					2,945,927	(303,865)
Net assets (deficit) at January 1, 2006					80,351,629	(4,748,781)
Net assets (deficit) at December 31, 2006					\$ 83,971,012	\$ 131,145,730

The accompanying notes are an integral part of this statement.

City of Muskegon
BALANCE SHEET
Governmental Funds
December 31, 2006

ASSETS						
	General Fund	Major Street and Trunkline Fund	Local Street Fund	Public Improvement Fund	Other governmental funds	Total governmental funds
Cash and investments	\$ 3,104,198	\$ 1,351,638	\$ -	\$ 5,226,487	\$ 3,150,435	\$ 12,832,758
Receivables						
Accounts and loans	273,199	19,301	-	25,417	475,627	793,544
Property taxes	6,017,434	-	-	-	-	6,017,434
Income taxes	1,050,818	-	-	-	-	1,050,818
Special assessments	-	1,181,194	1,765,787	-	717,832	3,664,813
Due from other governmental units	831,435	416,093	1,405,082	-	698,365	3,350,975
Due from other funds	-	-	-	-	825,472	825,472
Due from component units	-	-	-	-	103,996	103,996
Prepaid items	167,076	16,205	3,540	-	-	186,821
Total assets	<u>\$ 11,444,160</u>	<u>\$ 2,984,431</u>	<u>\$ 3,174,409</u>	<u>\$ 5,251,904</u>	<u>\$ 5,971,727</u>	<u>\$ 28,826,631</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 426,153	\$ 83,961	\$ 114,111	\$ 408,593	\$ 53,534	\$ 1,086,352
Accrued liabilities	404,682	18,299	13,544	-	8,614	445,139
Due to other governmental units	-	221,306	-	-	169,727	391,033
Due to other funds	-	-	273,577	-	505,523	779,100
Deferred revenue	7,923,286	1,952,763	2,124,947	1,000	890,900	12,892,896
Total liabilities	<u>8,754,121</u>	<u>2,276,329</u>	<u>2,526,179</u>	<u>409,593</u>	<u>1,628,298</u>	<u>15,594,520</u>
Fund balances						
Reserved for:						
Prepaid items	167,076	16,205	3,540	-	-	186,821
Capital projects	-	-	-	4,452,029	1,558,236	5,810,265
Perpetual care	10,000	-	-	-	1,214,384	1,224,384
Unreserved						
Designated, reported in capital projects funds	-	-	-	390,282	-	390,282
Undesignated, reported in						
General Fund	2,512,963	-	-	-	-	2,512,963
Special revenue funds	-	691,897	644,690	-	1,693,509	3,030,096
Permanent funds	-	-	-	-	77,300	77,300
Total fund balances	<u>2,690,039</u>	<u>708,102</u>	<u>648,230</u>	<u>4,842,311</u>	<u>4,343,429</u>	<u>13,232,111</u>
Total liabilities and fund balances	<u>\$ 11,444,160</u>	<u>\$ 2,984,431</u>	<u>\$ 3,174,409</u>	<u>\$ 5,251,904</u>	<u>\$ 5,971,727</u>	<u>\$ 28,826,631</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**

December 31, 2006

Total fund balance—governmental funds		\$ 13,232,111
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:		
Cost of capital assets	\$ 111,178,849	
Accumulated depreciation	<u>(37,699,475)</u>	73,479,374
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs	210,974	
Accumulated amortization	<u>(50,401)</u>	160,573
Other receivables in governmental activities is not reported in the governmental funds.		665,000
Accrued interest in governmental activities is not reported in the governmental funds.		(60,200)
Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.		3,291,509
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
Bonds and notes payable	(10,201,499)	
Compensated absences	<u>(1,200,424)</u>	(11,401,923)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the Statement of Net Assets.		<u>4,604,568</u>
Net assets of governmental activities in the Statement of Net Assets		<u><u>\$ 83,971,012</u></u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended December 31, 2006

	General Fund	Major Street and Trunkline Fund	Local Street Fund	Public Improvement Fund	Other governmental funds	Total governmental funds
REVENUES						
Taxes	\$ 15,052,708	\$ -	\$ -	\$ -	\$ -	\$ 15,052,708
Licenses and permits	1,009,023	-	-	-	-	1,009,023
Intergovernmental revenues						
Federal	172,881	724,862	768,000	-	2,336,788	4,002,531
State	4,575,103	3,200,496	1,201,337	-	751,511	9,728,447
Local	-	-	815,382	103,011	54,000	972,393
Charges for services	2,320,612	272,589	-	74,153	270,892	2,938,246
Fines and forfeitures	526,051	-	-	-	18,851	544,902
Interest and rental income	692,183	123,726	59,856	97,956	165,745	1,139,466
Other	299,681	254,840	186,369	7,135	317,540	1,065,565
Total revenues	24,648,242	4,576,513	3,030,944	282,255	3,915,327	36,453,281
EXPENDITURES						
Current						
Public representation services	903,895	-	-	-	-	903,895
Administrative services	669,789	-	-	-	-	669,789
Financial services	2,056,580	-	-	-	-	2,056,580
Public safety	12,946,470	-	-	-	55,763	13,002,233
Public works	2,730,415	-	-	-	-	2,730,415
Highways, streets and bridges	-	4,051,850	3,971,689	-	-	8,023,539
Community and economic development	763,211	-	-	-	-	763,211
Culture and recreation	2,190,835	-	-	-	-	2,190,835
Other governmental functions	557,550	-	-	-	581,598	1,139,148
Debt service						
Principal	-	615,000	-	219,785	355,000	1,189,785
Interest and fees	3,336	48,710	-	22,250	78,175	152,471
Bond issuance costs	-	-	-	118,762	-	118,762
Capital outlay	5,435	-	-	1,933,560	4,127,788	6,066,783
Total expenditures	22,827,516	4,715,560	3,971,689	2,294,357	5,198,324	39,007,446
Excess of revenues over (under) expenditures	1,820,726	(139,047)	(940,745)	(2,012,102)	(1,282,997)	(2,554,165)
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	-	-	-	557,066	563,275	1,120,341
Long-term debt issued	-	-	243,924	5,400,000	-	5,643,924
Discount on long-term debt issued	-	-	-	(17,593)	-	(17,593)
Transfers in	20,970	200,000	783,219	159,594	1,194,726	2,358,509
Transfers out	(1,671,262)	(200,000)	-	(1,000,000)	(55,292)	(2,926,554)
Total other financing sources (uses)	(1,650,292)	-	1,027,143	5,095,067	1,702,709	6,178,627
Net change in fund balances	170,434	(139,047)	86,398	3,086,965	419,712	3,624,462
Fund balances at January 1, 2006	2,519,605	847,149	561,832	1,755,346	3,923,717	9,607,649
Fund balances at December 31, 2006	\$ 2,690,039	\$ 708,102	\$ 648,230	\$ 4,842,311	\$ 4,343,429	\$ 13,232,111

The accompanying notes are an integral part of this statement.

City of Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended December 31, 2006

Net change in fund balances—total governmental funds		\$ 3,624,462
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.		
Depreciation and amortization expense	\$ (2,779,909)	
Capital outlay and bond issuance costs	<u>8,264,534</u>	5,484,625
Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of the capital assets.		(979,774)
Debt proceeds are other financing source in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.		(5,626,331)
Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.		20,000
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		1,191,228
Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		(44,200)
Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		96,630
Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets.		(273,475)
The internal service funds are used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities.		<u>126,218</u>
Change in net assets of governmental activities		<u>\$ 3,619,383</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET ASSETS
Proprietary Funds
December 31, 2006

ASSETS

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	Total	
CURRENT ASSETS					
Cash and investments	\$ 895,306	\$ 2,659,274	\$ -	\$ 3,554,580	\$ 2,876,194
Receivables					
Accounts	1,239,178	1,391,082	6,074	2,636,334	481,338
Contracts	726,000	-	-	726,000	-
Due from other governmental units	-	85,931	12,208	98,139	-
Inventories	28,587	110,490	-	139,077	17,178
Prepaid items	10,504	18,953	668	30,125	226,607
Total current assets	2,899,575	4,265,730	18,950	7,184,255	3,601,317
NONCURRENT ASSETS					
Restricted assets					
Capital assets, net	-	822,559	-	822,559	-
Land	16,188	103,500	22,562	142,250	65,000
Land improvements			1,901,973	1,901,973	121,648
Buildings, improvements and systems	17,573,168	59,819,409	2,322,488	79,715,065	1,562,717
Machinery and equipment	96,457	1,550,284	-	1,646,741	7,364,104
Construction in progress	1,508,687	1,549,432	-	3,058,119	-
Less accumulated depreciation	(5,888,002)	(17,529,222)	(1,805,931)	(25,223,155)	(6,282,591)
Net capital assets	13,306,498	45,493,403	2,441,092	61,240,993	2,830,878
Access rights, net	3,995,465	-	-	3,995,465	-
Bond issuance costs, net	-	101,025	-	101,025	-
Contracts receivable	675,002	-	-	675,002	-
Total noncurrent assets	17,976,965	46,416,987	2,441,092	66,835,044	2,830,878
Total assets	20,876,540	50,682,717	2,460,042	74,019,299	6,432,195
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	7,988	150,517	7,454	165,959	281,934
Accrued liabilities	26,011	165,125	768	191,904	31,010
Due to other governmental units	344,853	25,475	-	370,328	-
Due to other funds	-	-	46,372	46,372	-
Bonds and other obligations, due within one year	1,242,000	1,065,000	1,000	2,308,000	18,000
Total current liabilities	1,620,852	1,406,117	55,594	3,082,563	330,944
NONCURRENT LIABILITIES					
Bonds and other obligations, less amounts due within one year	4,805,424	20,360,636	1,089	25,167,149	91,552
Total liabilities	6,426,276	21,766,753	56,683	28,249,712	422,496
NET ASSETS					
Invested in capital assets, net of related debt	12,711,315	24,289,505	2,441,092	39,441,912	2,830,878
Restricted for debt service	-	822,559	-	822,559	-
Unrestricted	1,738,949	3,803,900	(37,733)	5,505,116	3,178,821
Total net assets	14,450,264	\$ 28,915,964	\$ 2,403,359	45,769,587	\$ 6,009,699
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				1,405,131	
Net assets of business-type activities				\$ 47,174,718	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended December 31, 2006

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	Total	
OPERATING REVENUES					
Charges for services	\$ 4,730,147	\$ 6,217,217	\$ 256,938	\$ 11,204,302	\$ 7,031,648
Other	73,555	124,893	10,474	208,922	306,657
Total operating revenues	4,803,702	6,342,110	267,412	11,413,224	7,338,305
OPERATING EXPENSES					
Administration	393,064	521,102	25,224	939,390	267,192
Insurance premiums and claims	-	-	-	-	3,968,555
Wastewater treatment	3,871,293	-	-	3,871,293	-
Filtration plant operations	-	1,287,949	-	1,287,949	-
Water distribution	-	1,361,096	-	1,361,096	-
Other operations	-	-	230,407	230,407	2,756,734
Bad debts	5,939	2,735	-	8,674	-
Depreciation and amortization	633,028	631,149	75,974	1,360,151	545,544
Total operating expenses	4,923,324	3,804,031	331,605	9,058,960	7,538,025
Operating income (loss)	(119,622)	2,538,079	(64,193)	2,354,264	(199,720)
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	39,199	82,861	-	122,060	92,527
Interest expense	(63,233)	(674,374)	-	(737,607)	-
Gain on sale of capital assets	-	-	-	-	54,579
Total nonoperating revenue (expenses)	(24,034)	(591,513)	-	(615,547)	147,106
Income (loss) before contributions and transfers	(143,656)	1,946,566	(64,193)	1,738,717	(52,614)
Capital contributions	107,356	69,065	534,220	710,641	107,356
Transfers in	-	-	540,000	540,000	28,045
Change in net assets	(36,300)	2,015,631	1,010,027	2,989,358	82,787
Net assets at January 1, 2006	14,486,564	26,900,333	1,393,332		5,926,912
Net assets at December 31, 2006	\$ 14,450,264	\$ 28,915,964	\$ 2,403,359		\$ 6,009,699
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds				(43,431)	
Change in net assets of business-type activities				\$ 2,945,927	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended December 31, 2006

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 4,601,177	\$ 6,186,880	\$ 264,783	\$ 11,052,840	\$ 340,805
Receipts from interfund services provided	24,154	202,342	-	226,496	7,031,648
Payments to suppliers	(3,046,731)	(1,432,243)	(132,064)	(4,611,038)	(5,444,252)
Payments to employees	(640,740)	(1,134,666)	(102,129)	(1,877,535)	(946,820)
Payments for interfund services used	(543,825)	(627,933)	(27,298)	(1,199,056)	(717,118)
Net cash provided by operating activities	394,035	3,194,380	3,292	3,591,707	264,263
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	-	-	540,000	540,000	28,045
Interfund borrowing	-	-	(39,617)	(39,617)	-
Net cash provided by noncapital financing activities	-	-	500,383	500,383	28,045
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	107,356	69,065	564,765	741,186	107,356
Purchases of capital assets	(340,777)	(1,770,517)	(1,068,440)	(3,129,734)	(239,828)
Principal paid on capital debt	(511,626)	(1,020,000)	-	(1,531,626)	-
Interest paid on capital debt	(63,233)	(662,774)	-	(726,007)	-
Proceeds from sale of capital assets	-	-	-	-	63,119
Net cash used for capital and related financing activities	(808,280)	(3,334,226)	(503,675)	(4,646,181)	(69,355)
CASH FLOW FROM INVESTING ACTIVITIES					
Investment earnings	39,199	82,861	-	122,060	92,527
Net increase (decrease) in cash and investments	(375,046)	(56,985)	-	(432,031)	315,482
Cash and investments at January 1, 2006	1,270,352	3,538,818	-	4,809,170	2,560,712
Cash and investments at December 31, 2006	\$ 895,306	\$ 3,481,833	\$ -	\$ 4,377,139	\$ 2,876,194
Reconciliation of cash and investments to the statement of net assets					
Cash and investments	\$ 895,306	\$ 2,659,274	\$ -	\$ 3,554,580	\$ 2,876,194
Restricted cash and investments	-	822,559	-	822,559	-
	\$ 895,306	\$ 3,481,833	\$ -	\$ 4,377,139	\$ 2,876,194
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ (119,622)	\$ 2,538,079	\$ (64,193)	\$ 2,354,264	\$ (199,720)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation and amortization expense	653,028	631,149	75,974	1,360,151	545,544
Bad debt expense	5,939	2,735	-	8,674	-
Change in assets and liabilities					
Receivables, net	(178,371)	47,112	(2,629)	(133,888)	34,954
Inventories	(9,710)	(44,434)	-	(54,144)	1,607
Prepaid items	371	(4,993)	66	(4,556)	(59,019)
Accounts payable	(113,087)	(8,324)	(4,137)	(125,548)	(71,141)
Accrued liabilities	155,487	33,056	(1,789)	186,754	12,038
Net cash provided by operating activities	\$ 394,035	\$ 3,194,380	\$ 3,292	\$ 3,591,707	\$ 264,263
Noncash financing activities					
Assumption of additional County debt	\$ 3,078,010	\$ -	\$ -	\$ 3,078,010	\$ -
Relief of guaranteed County debt	(552,204)	-	-	(552,204)	-

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF FIDUCIARY NET ASSETS
 Fiduciary Funds
 December 31, 2006

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and investments	\$ 32,555,447	\$ 5,557,253
Receivables		
Accounts	-	900
Property taxes	-	16,603,887
Total assets	<u>32,555,447</u>	<u>\$ 22,162,040</u>
LIABILITIES		
Accounts payable	7,404	\$ 121,981
Due to other governmental units	-	21,666,714
Deposits held for others	-	373,345
Total liabilities	<u>7,404</u>	<u>\$ 22,162,040</u>
NET ASSETS		
Held in trust for pension benefits	21,473,028	
Held in trust for healthcare benefits	<u>11,075,015</u>	
Total net assets	<u>\$ 32,548,043</u>	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 Fiduciary Funds
 For the year ended December 31, 2006

	Pension Trust Funds
ADDITIONS	
Contributions	
Employer	\$ 2,224,336
Plan members	426,375
Total contributions	<u>2,650,711</u>
Investment earnings	
Interest and dividends	149,519
Net increase in fair value of investments	<u>4,335,260</u>
Total net investment earnings	<u>4,484,779</u>
Total additions	<u>7,135,490</u>
DEDUCTIONS	
Benefits	3,098,344
Refunds of contributions	40,124
Plan assets transferred to Municipal Employees Retirement System	53,584,020
Administrative expenses	174,285
Healthcare costs	<u>1,022,121</u>
Total deductions	<u>57,918,894</u>
Change in net assets	(50,783,404)
Net assets at January 1, 2006	<u>83,331,447</u>
Net assets at December 31, 2006	<u>\$ 32,548,043</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET ASSETS (DEFICITS)
Discretely Presented Component Units
December 31, 2006

ASSETS						
	Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Downtown Development Finance Authority	Tax Increment Finance Authority	Total
CURRENT ASSETS						
Cash and investments	\$ 323	\$ 23,216	\$ 104,991	\$ -	\$ 8,758	\$ 137,288
Property taxes receivable	-	-	26,513	398,702	56,835	482,050
Total current assets	323	23,216	131,504	398,702	65,593	619,338
NONCURRENT ASSETS						
Capital assets						
Nondepreciable	-	-	400,000	-	-	400,000
Depreciable	-	-	3,265,926	-	-	3,265,926
Net capital assets	-	-	3,665,926	-	-	3,665,926
Bond issuance costs, net	-	-	117,276	-	-	117,276
Total noncurrent assets	-	-	3,783,202	-	-	3,783,202
Total assets	323	23,216	3,914,706	398,702	65,593	4,402,540
LIABILITIES AND NET ASSETS (DEFICITS)						
CURRENT LIABILITIES						
Accrued liabilities	-	-	34,200	11,800	-	46,000
Due to primary government	-	-	-	103,996	-	103,996
Deferred revenue	-	-	26,513	398,702	56,835	482,050
Bonds and other obligations, due within one year	-	-	80,000	200,000	-	280,000
Total current liabilities	-	-	140,713	714,498	56,835	912,046
NONCURRENT LIABILITIES						
Bonds and other obligations, less amounts due within one year	-	-	4,638,140	3,905,000	-	8,543,140
Total liabilities	-	-	4,778,853	4,619,498	56,835	9,455,186
NET ASSETS (DEFICITS)						
Invested in capital assets, net of related debt	-	-	(934,938)	-	-	(934,938)
Unrestricted	323	23,216	70,791	(4,220,796)	8,758	(4,117,708)
Total net assets (deficits)	\$ 323	\$ 23,216	\$ (864,147)	\$ (4,220,796)	\$ 8,758	\$ (5,052,646)

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
Discretely Presented Component Units
For the year ended December 31, 2006

		Net (Expense) Revenue and Changes in Net Assets				
		Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority
<i>Functions/Programs</i>	Expenses					Total
Local Development Finance Authority I						
Economic development	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Local Development Finance Authority II						
Economic development	-	-	-	-	-	-
Local Development Finance Authority III						
Economic development	178,821	-	-	(178,821)	-	(178,821)
Interest on long-term debt	206,076	-	-	(206,076)	-	(206,076)
Total Local Development Finance Authority III	384,897	-	-	(384,897)	-	(384,897)
Downtown Development Authority						
Economic development	400,598	-	-	-	(400,598)	(400,598)
Distributions to other taxing authorities	261,329	-	-	-	(261,329)	(261,329)
Interest on long-term debt	145,043	-	-	-	(145,043)	(145,043)
Total Downtown Development Authority	806,970	-	-	-	(806,970)	(806,970)
Tax Increment Finance Authority						
Economic development	54,000	-	-	-	-	(54,000)
Total discretely presented component units	\$ 1,245,867	-	-	(384,897)	(806,970)	(1,245,867)
General revenues						
Property taxes	-	-	-	17,908	350,401	58,740
Grants and contributions not restricted to specific programs	-	-	-	-	499,537	499,537
Unrestricted investment income	11	895	895	10,183	3,664	663
Total general revenues	11	895	895	28,091	853,602	59,403
Change in net assets						
Net assets (deficit) at January 1, 2006	312	22,321	895	(356,806)	46,632	(303,865)
Net assets (deficit) at December 31, 2006	\$ 323	\$ 23,216	\$ (864,147)	\$ (4,220,796)	\$ 8,758	\$ (5,052,646)

The accompanying notes are an integral part of this statement.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Muskegon (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City of Muskegon was incorporated October 6, 1919, under the provisions of the Home Rule Act of the State of Michigan. The City is a municipal corporation governed by an elected mayor and six-member City Commission and is administered by a city manager appointed by the City Commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. Each discretely presented component unit has a December 31 fiscal year end.

Blended Component Unit

Building Authority. The Authority is governed by a three-member board comprised of the City Manager, City Attorney and City Finance Director. For financial reporting purposes, the Building Authority is reported as if it were part of the City's operations since its sole purpose is to acquire and lease property to the City. Currently, there is no outstanding Building Authority indebtedness.

Discretely Presented Component Units

Downtown Development Authority (DDA). The Authority's sole purpose is the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the downtown district. Members of the DDA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the DDA budget and must approve any debt issuance. The DDA is presented as a governmental fund type.

Tax Increment Finance Authority (TIFA). The Authority's sole purpose is the collection of tax increment revenues and promotion of economic development activities (including issuance of debt) in a sub-section of the downtown district. Members of the TIFA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the TIFA budget and must approve any debt issuance. The TIFA is presented as a governmental fund type.

Local Development Finance Authority (LDFA). The City has created three separate local development finance authority districts under the aegis of the LDFA to promote and facilitate economic growth in the Port City Industrial Park, the Medendorp Industrial Park, and the SmartZone Hi-Tech Park. The LDFA's sole purpose is the collection of tax increment revenues and the construction of public facilities. Members of the LDFA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves budgets and must approve any debt issuance. The LDFA districts are presented as governmental fund types.

Complete financial statements of the component units can be obtained from their administrative offices, 933 Terrace Street, Muskegon, Michigan 49443.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Related Organizations

The following organizations are related to the City's financial reporting entity:

Muskegon Hospital Finance Authority. The Muskegon Hospital Finance Authority was created by the City of Muskegon in accordance with the laws of the State of Michigan. Members of the Hospital Finance Authority are appointed by the City but the City is not financially accountable for the Authority and therefore the Authority is excluded from the accompanying financial statements. The Hospital Finance Authority's sole purpose is to issue tax-exempt debt for the benefit of Hackley and Mercy-General hospitals, both of which are located within the City. The Authority has no assets or financial activity and does not prepare financial statements. The Hospital Finance Authority has no taxing power. As of December 31, 2006, there was no outstanding debt issued by the Hospital Finance Authority. The City is not obligated in any manner for repayment of debt issued by the Hospital Finance Authority, as any debt is payable solely from contractual payments from the hospitals.

Muskegon Housing Commission. The Muskegon Housing Commission was created by the City of Muskegon in accordance with the laws of the State of Michigan. Members of the Housing Commission are appointed by the City but the City is not financially accountable for the Commission and therefore the Commission is excluded from the accompanying financial statements. The Housing Commission's main purpose is to administer activities that provide adequate housing facilities for low-income families and the elimination of housing conditions that are detrimental to the public peace, health, safety, and welfare. The Commission's policy is to prepare its financial statements on the basis prescribed by the Department of Housing and Urban Development. Accordingly, the summary information below (which is required by federal regulations), is not intended to present financial position and results of operations in conformity with generally accepted accounting principles. Summary financial information for the fiscal year ended September 30, 2005, the date of its latest audited financial statements is as follows:

Total assets	\$ 5,025,532
Total liabilities	<u>(144,411)</u>
Total fund equity	<u>\$ 4,881,121</u>
 Total operating income	 \$ 335,083
Total operating expenses	(1,763,669)
Total nonoperating revenues	<u>1,339,166</u>
Net income	<u>\$ (89,420)</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Reimbursements due for expenditure-driven grants are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Income taxes, property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street and Trunkline Fund accounts for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

The Local Street Fund accounts for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of local streets within the City.

The Public Improvement Fund accounts for grants, private contributions, sale of property and other financial resources used to finance various capital projects.

The City reports the following three major proprietary funds:

The Sewer Fund accounts for user charges and for operating expenses and debt service of the City's sewer system.

The Water Fund accounts for user charges and for operating expenses and debt service of the City's water system.

The Marina and Launch Ramp Fund accounts for user fees collected and operating expenses for the Hartshorn Marina and boat launch ramp facilities.

Additionally, the City reports the following fund types:

Internal Service Funds account for the financing of goods or services provided to other funds of the government on a cost reimbursement basis.

The Pension Trust Funds are used to account for the assets held by the City as trustee for the employee retirement systems.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The City's three pension trust funds are also authorized to invest in corporate bonds, common stock and certain other investment vehicles. The City's deposits and investments are in accordance with statutory authority.

The City maintains a cash and investment pool that is available for use by all funds and component units. Each fund type's or component unit's portion of this pool is displayed on the combined balance sheet as "cash and investments". Cash overdrafts represent a deficit position in the pooled account and have been classified as amounts due to other funds. In addition, certain City trust funds including the Policemen and Firemen Retirement Trust Fund, the General Employees Retirement Trust Fund and the Cemetery Perpetual Care Trust Fund have investments which are separately held from those of other City funds.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Deposits and Investments—Continued

For the purpose of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash and cash equivalents because the investments are not identifiable to the specific funds and the assets can be withdrawn at any time, similar to a demand deposit account.

In accordance with State law, interest earned in the Budget Stabilization Fund is recorded in the General Fund.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. Taxes levied on December 1 are recorded as receivables and deferred revenue. Taxes are recognized as revenue (and become available for appropriation) in the calendar year following the levy.

The 2005 state taxable value for real/personal property of the City totaled approximately \$658,530,000 of which approximately \$15,850,000 was captured by the component units. The ad valorem taxes levied consisted of 8.5, 2.5, and .0755 mills for the City's general operating, sanitation, and community promotion purposes. These amounts are recognized in the General Fund with captured amounts shown in the TIFA, LDFA, and DDA component units.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Restricted Assets

Certain proceeds of the Water Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to obtain the historical cost of the initial reporting of these assets by recording the actual costs incurred by the City.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-25
Leasehold improvements	10-25
Buildings and improvements	25-50
Water and sewage mains	40-100
Furniture, vehicles and equipment	5-20
Infrastructure	15-50
Shared improvements	20

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this debt is estimated based on historical trends. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e. presentation of prior year's totals by fund type) data has not been presented in each of the statements since its inclusion would make the statements unduly complex and difficult to read. Also, certain items in the 2005 financial statements have been reclassified to conform to the 2006 presentation.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and all special revenue funds. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to September 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at City Hall to obtain public comments.
- c. Prior to September 25, the budget is legally adopted by the City Commission.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Commission.

The appropriated budget is prepared by fund, function and department. The City Manager may transfer line-item budget amounts within departments. Transfers of appropriations between departments require the approval of the City Commission. The legal level of budgetary control is the department level for the General Fund and the total expenditure or “fund” level for all other funds. The City Commission made several supplemental budgetary appropriations throughout the year.

Fund Deficit

As of December 31, 2006, the DDA Fund had an undesignated fund deficit of \$103,996 and the Marina and Launch Ramp Fund had an unrestricted net assets deficit of \$37,733. The deficits will be eliminated through future operations and interfund transfers.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE C—DEPOSITS AND INVESTMENTS

As of December 31, 2006, the City had the following investments:

Investment Type	Fair value	Weighted average maturity (Months)	Moody's	Percent
Money market funds	\$ 274,449	0.24	AAA	0.6 %
Money market funds	174,073	0.60	not rated	0.4
External investment pools	3,720,787	1.56	not rated	8.4
Stock mutual funds	21,161,683	N/A	N/A	47.5
Bond mutual funds	11,235,755	81.72	AAA	25.2
US Treasury notes	1,015,675	11.40	N/A	2.3
US Agency obligations	6,931,250	19.08	AAA	15.6
Total fair value	<u>\$ 44,513,672</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>23.99</u>		

The City voluntarily invests certain excess funds in external investment pools (Pools). The Pools are an external investment pool of "qualified" investments for Michigan municipalities. The Pools are not regulated nor registered with the SEC. The fair value of the City's investments is the same as the fair value of the Pools.

Interest rate risk. The City has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At least 10% of the City's total portfolio must be in instruments maturing in 30 days or less and the weighted average maturity cannot be over three years. US Agency obligations, federal instrumentality securities and time certificates of deposit cannot have a final maturity exceeding five years, repurchase agreements cannot have a final maturity exceeding one year, commercial paper cannot have a final maturity exceeding 270 days and eligible bankers' acceptances cannot have a final maturity exceeding 180 days.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The City has a concentration of credit risk policy that limits investment in commercial paper, eligible bankers acceptances and time certificates of deposit to 25% each of the total portfolio. More than 5 percent of the City's investments are in U.S. Agency Obligations issued by the Federal Farm Credit Bank. This investment is 6.64 percent of the City's investments. All of the investments reported in the City's pension trust funds are stock mutual funds and bond mutual funds.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of December 31, 2006, \$13,516,001 of the City's bank balance of \$13,716,001 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has a custodial credit risk policy for investments that requires that all investments that are held with a third-party for safekeeping be in the City's name.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

Restricted Assets

Restrictions are placed on assets by bond ordinance and City Commission action. At December 31, 2006, restricted cash and investments in the Water Fund was \$822,559, restricted by bond ordinance.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 13,487,968	\$ -	\$ 979,774	\$ 12,508,194
Construction in progress	3,671,353	7,109,311	2,447,049	8,333,615
Total capital assets, not being depreciated	17,159,321	7,109,311	3,426,823	20,841,809
Capital assets, being depreciated:				
Land improvements	2,391,247	-	-	2,391,247
Leasehold improvements	287,295	-	-	287,295
Buildings and improvements	17,120,008	19,733	-	17,139,741
Furniture, vehicles and equipment	10,777,730	1,256,556	284,786	11,749,500
Infrastructure	59,858,776	2,447,049	-	62,305,825
Shared improvements	5,576,901	-	-	5,576,901
Total capital assets, being depreciated	96,011,957	3,723,338	284,786	99,450,509

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE D—CAPITAL ASSETS—Continued

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
Governmental activities—Continued				
Less accumulated depreciation:				
Land improvements	\$ 249,073	\$ 67,454	\$ -	\$ 316,527
Leasehold improvements	25,090	26,389	-	51,479
Buildings and improvements	11,846,328	312,158	-	12,158,486
Furniture, vehicles and equipment	8,402,206	579,481	276,246	8,705,441
Infrastructure	19,619,109	2,049,586	-	21,668,695
Shared improvements	802,593	278,845	-	1,081,438
Total accumulated depreciation	40,944,399	3,313,913	276,246	43,982,066
Total capital assets, being depreciated, net	55,067,558	409,425	8,540	55,468,443
Capital assets, net	\$ 72,226,879	\$ 7,518,736	\$ 3,435,363	\$ 76,310,252
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 142,250	\$ -	\$ -	\$ 142,250
Construction in progress	25,665,227	2,464,689	25,071,797	3,058,119
Total capital assets, not being depreciated	25,807,477	2,464,689	25,071,797	3,200,369
Capital assets, being depreciated:				
Land improvements	1,901,973	-	-	1,901,973
Buildings and systems	54,649,223	25,065,842	-	79,715,065
Machinery and equipment	1,560,308	86,433	-	1,646,741
Total capital assets, being depreciated	58,111,504	25,152,275	-	83,263,779
Less accumulated depreciation:				
Land improvements	1,533,987	40,698	-	1,574,685
Buildings and systems	21,763,861	945,314	-	22,709,175
Machinery and equipment	876,892	62,403	-	939,295
Total accumulated depreciation	24,174,740	1,048,415	-	25,223,155
Total capital assets, being depreciated, net	33,936,764	24,103,860	-	58,040,624
Capital assets, net	\$ 59,744,241	\$ 26,568,549	\$ 25,071,797	\$ 61,240,993

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE D—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense was charged to functions as follows:

Governmental activities:

Administrative services	\$ 61,582
Financial services	2,632
Public safety	60,473
Public works	86,990
Highways, streets and bridges	2,279,937
Community and economic development	83,687
Culture and recreation	188,252
General administration	4,816
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	<u>545,544</u>
	<u><u>\$ 3,313,913</u></u>

Business-type activities:

Water	\$ 624,690
Sewer	347,751
Marina	<u>75,974</u>
	<u><u>\$ 1,048,415</u></u>

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
Component units:				
Capital assets, not being depreciated:				
Land	\$ 400,000	\$ -	\$ -	\$ 400,000
Capital assets, being depreciated:				
Building and improvements	3,798,258	-	-	3,798,258
Less accumulated depreciation:				
Buildings and improvements	<u>359,684</u>	<u>172,648</u>	<u>-</u>	<u>532,332</u>
Total accumulated depreciation	<u>359,684</u>	<u>172,648</u>	<u>-</u>	<u>532,332</u>
Total capital assets, being depreciated, net	<u>3,438,574</u>	<u>(172,648)</u>	<u>-</u>	<u>3,265,926</u>
Capital assets, net	<u><u>\$ 3,838,574</u></u>	<u><u>\$ (172,648)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,665,926</u></u>

Depreciation

Depreciation expense was charged to economic development.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE E—ACCESS RIGHTS

Access rights activity for the year ended December 31, 2006 was as follows:

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
Business-type activities				
Access rights	\$ 2,467,283	\$ 3,078,010	\$ 328,718	\$ 5,216,575
Less accumulated amortization	<u>925,901</u>	<u>305,277</u>	<u>10,068</u>	<u>1,221,110</u>
Access rights, net	<u>\$ 1,541,382</u>	<u>\$ 2,772,733</u>	<u>\$ 318,650</u>	<u>\$ 3,995,465</u>

Amortization

Amortization expense was charged to sewer.

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended December 31, 2006 was as follows:

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
Governmental activities:				
Bond issuance costs	\$ 92,212	\$ 118,762	\$ -	\$ 210,974
Less accumulated amortization	<u>38,861</u>	<u>11,540</u>	<u>-</u>	<u>50,401</u>
Bond issuance costs, net	<u>\$ 53,351</u>	<u>\$ 107,222</u>	<u>\$ -</u>	<u>\$ 160,573</u>
Business-type activities:				
Bond issuance costs	\$ 270,814	\$ -	\$ -	\$ 270,814
Less accumulated amortization	<u>155,039</u>	<u>14,750</u>	<u>-</u>	<u>169,789</u>
Bond issuance costs, net	<u>\$ 115,775</u>	<u>\$ (14,750)</u>	<u>\$ -</u>	<u>\$ 101,025</u>

Amortization

Amortization expense was charged to functions as follows:

Governmental Activities:

Interest on long-term debt	<u>\$ 11,540</u>
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Business-type Activities:

Water	<u>\$ 14,750</u>
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City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2006 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Budget Stabilization Fund	Local Street Fund	\$ 273,577
Budget Stabilization Fund	Community Development Block Grant Fund	219,124
Budget Stabilization Fund	HOME Rehabilitation Fund	51,985
Budget Stabilization Fund	State Grant Fund	234,414
Budget Stabilization Fund	Marina and Launch Ramp Fund	46,372
		<u>\$ 825,472</u>

The outstanding balances between funds result from the payable funds having negative positions in the City's cash and investment pool.

The DDA component unit owes the Budget Stabilization Fund \$103,996 as a result of having a negative position in the City's cash and investment pool.

Interfund transfers:

<u>Transfers in</u>	<u>Amount</u>	<u>Transfers out</u>	<u>Amount</u>
General Fund	\$ 20,970	State Grants Fund	\$ 6,057
	<u>20,970</u>	Cemetery Fund	<u>14,913</u>
			20,970
Major Street and Trunkline Fund	200,000	General Fund	1,671,262
Local Street Fund	580,000		
L.C. Walker Arena Fund	319,310		
Budget Stabilization Fund	150,000		
Sidewalk Replacement Fund	150,000		
Public Improvement Fund	159,594		
Arena Capital Improvements Fund	60,000		
State Grants Fund	673		
Marina and Launch Ramp Fund	40,000		
General Insurance Fund	<u>11,685</u>		<u>1,671,262</u>
	1,671,262		

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS—Continued

Interfund transfers:—Continued

<u>Transfers in</u>	<u>Amount</u>	<u>Transfers out</u>	<u>Amount</u>
Local Street Fund	\$ 203,219	Major Street and Trunkline Fund	\$ 200,000
		State Grants Fund	3,219
	<u>203,219</u>		<u>203,219</u>
State Grants Fund	500,000	Public Improvement Fund	1,000,000
Marina and Launch Ramp Fund	<u>500,000</u>		
	1,000,000		<u>1,000,000</u>
Arena Capital Improvement Fund	14,743	L.C. Walker Arena Fund	31,103
General Insurance Fund	<u>16,360</u>		
	<u>31,103</u>		<u>31,103</u>
	<u>\$ 2,926,554</u>		<u>\$ 2,926,554</u>

Each year, the General Fund transfers funds to the Major Street and Trunkline, Local Street, Sidewalk Replacement and Public Improvement funds to finance capital improvements. The General Fund also provides an operating subsidy to the L.C. Walker Arena Fund. Other transfers between funds are made to meet grant matching requirements or other operational needs.

NOTE H—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes	\$ 5,922,513	\$ 2,000,773
Receivables	301,276	-
Special assessments	3,705,125	-
Grants	<u>-</u>	<u>963,209</u>
Total deferred revenue for governmental funds	<u>\$ 9,928,914</u>	<u>\$ 2,963,982</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE I—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended December 31, 2006.

	Balance January 1, 2006	Additions	Reductions	Balance December 31, 2006	Due within one year
Governmental activities:					
General obligation debt	\$ -	\$ 5,382,407	\$ -	\$ 5,382,407	\$ -
Intergovernmental					
contractual obligations	1,282,976	243,924	170,000	1,356,900	220,000
Michigan Transportation					
Fund obligations	1,647,596	-	616,443	1,031,153	640,000
Special assessment obligations	2,230,000	-	355,000	1,875,000	330,000
Installment purchase					
agreement	605,824	-	49,785	556,039	60,000
Compensated absences	1,394,257	1,135,268	1,219,549	1,309,976	218,000
Governmental activity					
long-term liabilities	<u>\$ 7,160,653</u>	<u>\$ 6,761,599</u>	<u>\$ 2,410,777</u>	<u>\$ 11,511,475</u>	<u>\$ 1,468,000</u>
Business-type activities:					
Revenue obligations	\$ 22,315,815	\$ -	\$ 1,010,892	\$ 21,304,923	\$ 1,045,000
Intergovernmental					
contractual obligations	3,606,017	3,630,214	1,244,581	5,991,650	1,233,000
Compensated absences	167,258	165,631	154,313	178,576	30,000
Business-type activity					
long-term liabilities	<u>\$ 26,089,090</u>	<u>\$ 3,795,845</u>	<u>\$ 2,409,786</u>	<u>\$ 27,475,149</u>	<u>\$ 2,308,000</u>
Component units:					
Revenue obligations	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -
General obligation debt	8,022,561	-	199,421	7,823,140	280,000
Component unit long-					
term liabilities	<u>\$ 9,022,561</u>	<u>\$ -</u>	<u>\$ 199,421</u>	<u>\$ 8,823,140</u>	<u>\$ 280,000</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Governmental activities:

General obligation debt:

\$5,400,000 Limited Tax General Obligation Bonds of 2006 payable in annual installments of \$45,000 to \$350,000 through October 1, 2032; interest at 4.0% to 4.2%	\$ 5,400,000
Less bond discount	(17,593)

Intergovernmental contractual obligations:

\$1,276,900 Non-interest bearing State of Michigan urban land assembly loan of 1999 payable in annual installments of \$200,000 to \$276,900 through October 31, 2009	676,900
\$700,000 Non-interest bearing State of Michigan urban land assembly loan of 2005 payable in annual installments of \$20,000 to \$120,000 through September 1, 2015	680,000

Michigan Transportation Fund obligations:

\$2,245,000 Michigan Transportation Fund bonds of 2002 for street improvements payable in annual installments of \$390,000 to \$400,000 through June 1, 2008; interest at 2.88% to 3.13%	790,000
Plus bond premium	1,153
\$1,950,000 Michigan Transportation Fund bonds of 1998; final payment of \$240,000 due December 1, 2007; interest at 4.25%	240,000

Special assessment obligations:

\$1,495,000 Special assessment improvement bonds of 1998 payable in annual installments of \$60,000 to \$130,000 through April 1, 2009; interest at 4%	285,000
\$825,000 Special assessment improvement bonds of 2000 payable in annual installments of \$70,000 to \$90,000 through April 1, 2010; interest at 4.7% to 5.0%	330,000

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued
Governmental activities:—Continued

Special assessment obligations:—Continued

\$1,575,000 Capital improvement bonds of 2003 payable
in annual installments of \$110,000 to \$150,000
through June 1, 2016; interest at 2.38% to 4.05% \$ 1,260,000

Installment purchase agreement:

\$605,824 Note payable to bank in annual installments of
\$51,921 to \$72,658 through April 1, 2015; interest
at 3.83% 556,039

Compensated absences 10,201,499
1,309,976
\$ 11,511,475

Business-type activities:

Revenue obligations:

\$5,465,000 Water supply system bonds of 1993 payable
in two installments of \$450,000 from May 1, 2012
through May 1, 2013; interest at 4.5% \$ 900,000

Less bond discount (11,315)

\$9,575,000 Water supply system bonds of 1999 payable
in annual installments of \$130,000 to
\$800,000 through May 1, 2019; interest at
4.05% to 4.75% 7,135,000

Less bond discount (53,762)

\$13,900,000 Drinking Water State Revolving Fund loan
of 2004 payable in annual installments of
\$575,000 to \$840,000 through October 1,
2025; interest at 2.13% 13,335,000

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued
Business-type activities:—Continued

Intergovernmental contractual obligations

\$6,990,000 Contractual obligation of 2002 for County
wastewater debt payable in annual installments
of \$1,221,207 to \$1,232,894 through 2008;
interest at 5% \$ 2,454,101

\$6,497,750 Contractual obligation for County
wastewater debt payable beginning in 2008;
interest at 1.625% 3,537,549

Compensated absences 27,296,573

178,576
\$ 27,475,149

Component units:

Revenue obligations:

\$1,000,000 Non-interest bearing Downtown Development
Authority promissory note to Muskegon County
payable August 30, 2019 \$ 1,000,000

General obligation debt:

\$4,005,000 Downtown Development Authority tax
increment refund bonds of 2001 payable in annual
installments of \$200,000 to \$335,000 through June 1,
2018; interest at 4% to 5% 3,105,000

\$4,725,000 Local Development Finance Authority
tax increment bonds of 2002 payable in annual
installments of \$80,000 to \$400,000 through
November 1, 2025; interest at 3.25% to 4.85% 4,725,000

Less bond discount (6,860)

\$ 8,823,140

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE I—LONG-TERM DEBT—Continued

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The special assessment bonds are backed by the limited full faith and credit of the City.

The County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The City has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 20 years. The contractual obligation is secured by the full faith and credit of the City. Current debt service requirements are funded by sewer revenues.

The \$4,725,000 Local Development Finance Authority (LDFA) tax increment bonds of 2002 are partially guaranteed by the Community Foundation for Muskegon County. Beginning in 2006, if LDFA tax increment revenues are not sufficient to cover debt service costs in any year, the Foundation has agreed to pay one-half of such shortfall, up to \$75,000 annually. This commitment extends through December 31, 2016.

The City was in compliance in all material respects with all the revenue bond ordinances at December 31, 2006.

Annual debt service requirements to maturity for debt outstanding as of December 31, 2006 follows:

Year ending December 31,	Governmental activities		Business-type activities		Component units	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 1,241,921	\$ 319,411	\$ 2,277,894	\$ 736,423	\$ 280,000	\$ 342,639
2008	999,148	297,794	5,838,756	652,322	290,000	331,839
2009	663,371	277,183	1,110,000	567,463	300,000	320,219
2010	338,894	264,040	1,150,000	533,023	310,000	307,811
2011	371,420	252,989	1,185,000	496,787	320,000	294,604
2012-2016	1,788,185	1,112,722	6,525,000	1,874,015	2,745,000	1,187,600
2017-2021	1,055,000	923,325	6,010,000	753,723	3,430,000	542,472
2022-2026	1,665,000	637,925	3,265,000	175,207	1,155,000	143,386
2027-2031	1,745,000	291,695	-	-	-	-
2032	350,000	14,700	-	-	-	-
	<u>\$ 10,217,939</u>	<u>\$ 4,391,784</u>	<u>\$ 27,361,650</u>	<u>\$ 5,788,963</u>	<u>\$ 8,830,000</u>	<u>\$ 3,470,570</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE I—LONG-TERM DEBT—Continued

Annual debt service requirements to maturity by type of debt as of December 31, 2006 follows:

Year ending December 31,	General Obligation Debt		Revenue Obligations	
	Governmental activities	Component units	Business-type activities	Component units
2007	\$ 205,144	\$ 622,639	\$ 1,677,037	\$ -
2008	264,145	621,839	1,680,378	-
2009	267,345	620,219	1,677,463	-
2010	285,345	617,811	1,683,023	-
2011	282,545	614,604	1,681,787	-
2012-2016	1,370,725	3,932,600	8,399,015	-
2017-2021	1,978,325	2,972,472	6,763,723	1,000,000
2022-2026	2,302,925	1,298,386	3,440,207	-
2027-2031	2,036,695	-	-	-
2032	364,700	-	-	-
	<u>\$ 9,357,894</u>	<u>\$ 11,300,570</u>	<u>\$ 27,002,633</u>	<u>\$ 1,000,000</u>

Year ending December 31,	Intergovernmental		Installment Purchase Agreement	Special Assessment	Michigan Transportation Fund Obligations
	Governmental activities	Business-type activities	Governmental activities	Governmental activities	Governmental activities
2007	\$ 220,000	\$ 1,337,280	\$ 72,223	\$ 395,828	\$ 668,137
2008	220,000	4,810,700	72,419	344,285	396,093
2009	296,900	-	72,624	303,685	-
2010	20,000	-	72,838	224,751	-
2011	120,000	-	73,059	148,805	-
2012-2016	480,000	-	294,660	755,522	-
2017-2021	-	-	-	-	-
2022-2026	-	-	-	-	-
2027-2031	-	-	-	-	-
2032	-	-	-	-	-
	<u>\$ 1,356,900</u>	<u>\$ 6,147,980</u>	<u>\$ 657,823</u>	<u>\$ 2,172,876</u>	<u>\$ 1,064,230</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE J—DESIGNATED FUND BALANCE

Unreserved fund balances designated for specific purposes as of December 31, 2006 were as follows:

Public Improvement Fund	
Designated for fire equipment replacement	\$ 374,272
Designated for Pere Marquette Park improvements	<u>16,010</u>
	<u>\$ 390,282</u>

NOTE K—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal Risk Management Authority (MMRMA), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMRMA for its insurance coverage. The MMRMA is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. A \$100,000 deductible is maintained to place the responsibility for small charges with the City. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. Changes in the fund's claim liability amount in 2006 and 2005 were as follows:

Year ended <u>December 31,</u>	Balance at beginning of year	Current year claims and changes in estimates	Claims payments	Balance at end of year
2006	\$ 117,567	\$ 334,012	\$ 361,185	\$ 90,394
2005	117,577	93,993	94,003	117,567

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE K—OTHER INFORMATION—Continued

Risk Management—Continued

The City is self-insured for employee health care benefits for those employees selecting the City plan over other options. Under this plan, the General Insurance Fund provides coverage for up to a maximum of \$125,000 per covered individual. As of December 31, 2006, the claims liability including incurred but not reported claims was \$103,901. A liability was recorded in the accompanying financial statements for the estimated claims liability. The claims liability was based on past experience, a review of pending claims and other social and economic factors. The above estimate was not discounted and there were no outstanding claims for which annuity contracts have been purchased in the claimant's name. No significant reductions in insurance coverage were made in the last fiscal year. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. Changes in the fund's claim liability amount in 2006 and 2005 were as follows:

Year ended <u>December 31,</u>	Balance at beginning of year	Current year claims and changes in estimates	Claims payments	Balance at end of year
2006	\$ 31,102	\$ 1,370,267	\$ 1,297,468	\$ 103,901
2005	85,879	1,227,436	1,282,213	31,102

Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Commitments

At December 31, 2006, the City had entered into various agreements for construction projects. Below is a summary of those agreements:

<u>Fund</u>	<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining commitment</u>
Public Improvement	Central Fire Station	\$ 568,379	\$ 2,605,947
Local Street	Western Avenue - Terrace to Third	647,226	241,306

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE L—PENSION PLANS

Defined Benefit Pension Plans

The primary government maintains two separate single employer contributory pension plans – the General Employees Retirement System and the Policemen and Firemen Retirement System – which cover all active full-time employees of the City. The pension plans are maintained as pension trust funds and are included as part of the City's reporting entity. Staff costs associated with administering the plans are paid from the City's General Fund. Contractual service costs for investment management and consulting, actuarial services, custodial services and similar items are paid from investment earnings of the funds. Financial statements for the pension plans can be obtained from the administrative office at 933 Terrace Street, Muskegon, MI 49443.

Plan Description. The following schedule is derived from the respective actuarial reports and from City information and reflects accounting policies, membership and plan provisions and actuarial assumptions for the two pension plans as of December 31, 2005:

	<u>General Employees</u>	<u>Policemen and Firemen</u>
General Information:		
Authority	City Ordinance	City Ordinance
Basis of accounting	Accrual	Accrual
Asset valuation:		
Reporting	Fair Value	Fair Value
Actuarial valuation	Four-Year Smoothed Market	Four-Year Smoothed Market
Valuation date	December 31, 2005	December 31, 2005
Actuarial cost method	Entry Age Normal - level percent of compensation	Entry Age Normal - level percent of compensation
Amortization method	Level Percent (Open)	Level Percent (Open)
Remaining amortization period	10 years	10 years
Non-government investments in excess of 5%	None	None
Membership and Plan Provisions:		
Members		
Active participants	99	114
Retirees and beneficiaries receiving benefits	152	153
Terminated plan members entitled to but not yet receiving benefits	28	8
Member contributions		
First \$4,200 of earnings	3% - 5%	6%
Excess of \$4,200 of earnings	5%	6%

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE L—PENSION PLANS—Continued

Defined Benefit Pension Plans—Continued

	<u>General Employees</u>	<u>Policemen and Firemen</u>
Membership and Plan Provisions:—Continued		
Normal retirement benefit		
Retirement age	55 - 60	53 - 55
Years of service (minimum)	5 - 30	10 - 25
Accrual (first \$4,200 final average compensation)	1.9% - 2.25%	2.5% - 2.6%
Final average compenstion in excess of \$4,200	1.9% - 2.25%	2.5% - 2.6%
Maximum (% of final average compensation)	None	75% - 85%
Years to Vest	5 - 10	10
Assumptions		
Investment earnings	8%	8%
Salary increases	5% - 8.8%	5% - 8%
Salary assumptions include inflation at 5%		

Basis of Accounting. The pension plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period they are due. The City's contributions to the plans are recognized when due and the City has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Funding Policy. The City is obligated by the state constitution to make annual contributions to each of its pension plans based on actuarially computed percentages of covered wages in amounts sufficient to cover the normal cost of benefits and amortize prior service liabilities over a period of future years. Actuarial assumptions used in determining the annual funding requirements are set by the boards of trustees of each system. During the year ended December 31, 2006, contributions were made to the plans in accordance with contribution requirements determined by actuarial valuations of the plans as of December 31, 2004, and were as follows:

	<u>General Employees</u>	<u>Policemen and Firemen</u>
Retirement contributions - members	\$ 165,471	\$ 260,904
Retirement contributions - City	<u>275,772</u>	<u>802,680</u>
	<u>\$ 441,243</u>	<u>\$ 1,063,584</u>

Benefits. Pension benefit levels are established through negotiation and contract with the City's various collective bargaining units. Benefit levels for non-represented employees are established by policy of the City Commission.